

No. 12270

IN THE

United States Court

of Appeals

FOR THE NINTH CIRCUIT

INTERNATIONAL ELECTRIC COM-
PANY, an Illinois corporation,
Appellant,

vs.

INTERNATIONAL ELECTRIC FENCE
Co., a Washington corporation;
and GEORGE N. HUGHES,
Appellees.

UPON APPEAL FROM THE DISTRICT COURT OF THE
UNITED STATES FOR THE WESTERN DISTRICT
OF WASHINGTON
SOUTHERN DIVISION

Brief of Appellees

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RESTATEMENT OF THE CASE

The basic and controlling issues of fact in this case were found against Appellant by the Trial Court. For this reason, and because the statement of the case in Appellant's brief is not entirely clear and complete, a restatement is considered necessary.

In this brief Appellant will be referred to as the Illinois corporation and the Appellee corporation as the Washington corporation. It was the position of the Illinois corporation that it had the exclusive right to use the trade-mark "International" on electric fencers

and allied products throughout the United States. (R. 27.) The Washington corporation did not maintain that it had an exclusive right to use such trade-mark, but did claim the right to concurrent use in certain western states, basing such upon the same prior use upon which the Illinois corporation relied. (R. 214, 215.) The Trial Court found and held in accordance with the contention of the Washington corporation. (R. 15-23.)

In 1938 R. H. Turk and Vernard Soper formed an Oregon corporation under the corporate name of International Electric Fence Company, Inc., to engage in distribution and selling of electric fencers and used thereon the trade-mark "International." (R. 62, 351, 352, 442.) The Oregon corporation was unsuccessful financially and was abandoned the same year. (R. 63, 353, 479, 480.) In the spring of 1938, Soper went to Chicago where he started a business of assembling and distributing electric fencers. This was carried on by him as an individual under the assumed name of International Electric Fence Company and the product carried the trade-mark "International." (R. 447, 448.) In the fall of 1938, Turk commenced doing business in Vancouver, Washington, as an individual under the identical assumed name, International Electric Fence Company. (R. 63, 106, 477.) In 1938 while Turk was doing business in Vancouver he used the trade-mark "International" on the fencers distributed and sold by him which were assembled for him by one Good. (R.

64, 106, 334, 392.) In later years Turk bought his products from Soper who assembled them in Chicago. (R. 67.)

In 1941 Turk needed capital and by arrangement with his bookkeeper, Appellee G. N. Hughes, the latter paid Turk \$2,000.00 for a one-half interest in the business, an amount equal to one-half of its then net worth. (R. 163, 164.) This sale of an interest in the business included its good will. (R. 320.) Within a few weeks thereafter the equal partnership so created was incorporated under the laws of the State of Washington under the corporate name of International Electric Fence Company, Inc., and Hughes and Turk each took one-half of the stock in the new corporation. (R. 66.) Both Turk and Hughes testified that they had no conversations specifically referring to the trade-mark "International" prior to the incorporation, or later when Hughes bought Turk's stock in the Washington corporation, although the trade-mark was used continuously. (R. 121, 177, 341, 343, 348, 349, 388, 390, 391.) Turk admitted Hughes stated that he wanted the trade-mark in a letter prior to July 1, 1944, when Hughes bought Turk out. (R. 405, 406.) The minutes of the first meeting of the Directors of the Washington corporation provide in part as follows:

"R. H. Turk and G. N. Hughes had heretofore owned certain assets as co-partners, and were doing business in Vancouver as an electric fence company, and had built up a business and created good will. The said assets consist of machinery, equipment, good will, accounts receivable, etc. Said G. N.

Hughes and wife and R. H. Turk and wife then offered to convey to the corporation all of the assets of said co-partnership in full payment of the capital stock subscribed by R. H. Turk and wife and G. N. Hughes and wife. It was thereupon duly moved, seconded and carried that the best interests of the company would be furthered by accepting the offer; that the reasonable value of the said assets was \$4,000.00, and the officers of the corporation were thereupon instructed and authorized to issue to the stockholders common stock in payment of said assets, and that their stock subscriptions were considered paid in full." (R. 394, 401.)

These minutes were signed by R. H. Turk, President, and G. N. Hughes, Secretary. (R. 402.) They conveyed to the Washington corporation all assets of the co-partnership, including specifically good will of which the trade-mark "International" was an inseparable part.

In June, 1943, Turk left Vancouver, while still President of the Washington corporation, and went to Chicago to expedite production of fencer units which were scarce due to wartime material shortages. (R. 68.) In Chicago, Turk became a partner of Soper in the then unincorporated International Electric Fence Company of Chicago and thereafter competed with the Washington corporation of which he was President, using the same product and same trade-mark. (R. 68, 88, 124, 310, 414, 415, 451, 452.)

On June 1, 1944, the partnership between Turk and Soper, doing business as the International Electric Fence Company in Chicago, had been dissolved and

Turk became the sole owner of that business which evolved into the present Appellant Illinois corporation which is controlled and almost wholly owned by Turk. (R. 71, 73.) Both Turk's Illinois corporation and Hughes' Washington corporation sought to register the trade-mark "International" as applied to fencer units. Hughes filed his application before Turk's filing but gave as date of first use January 2, 1938, while Turk specified January 1, 1938, as such date. (R. 93, 135, 136, 137, 148.) There is no dispute, however, that both claim prior use from the same source. (R. 138.) Turk's application was granted; that of Hughes is still pending, although it was at first rejected on the ground that National Battery Company had a prior appropriation of "International." However, when attention was called to Turk's registration it was published and is pending. (R. 151-156.)

By July 1, 1944, relations between Hughes and Turk had deteriorated and at that time Hughes bought all of Turk's stock for approximately one-half of the then net worth of the Washington corporation and further paid, or arranged to pay, all salary and commissions owing to Turk. (R. 83, 114, 165, 341, 342.) Hughes then considered the trade-mark part of the assets of the Washington corporation. (R. 179.) Appellant's theory of the case was based on Turk's testimony that after he stopped selling fencers produced by Good in 1939 and started to buy fencers produced by Soper, then doing business as the International Electric Fence Company in Chicago, he agreed that Soper should have

the exclusive right to manufacture units carrying the trade-mark "International" while he, Turk, should have exclusive distribution thereof in the western states. (R. 235.) He further claimed and testified that subsequently he received back the exclusive right to use the trade-mark "International" as applied to fencers from Soper on dissolution of their partnership, although the written agreement of that dissolution does not mention it. (R. 428.) The trade-mark was not mentioned when Turk became Soper's partner. (R. 355.) Turk admitted he placed no value on the trade-mark until 1944. (R. 354.) With respect to his testimony attention is invited to the comment of the Trial Judge who saw and heard the witnesses:

"In Mr. Turk's statements there are many inconsistencies; statements that are inconsistent with the actions of a person who is willing to tell the whole truth about a transaction. So, in the very material features of this case, where there is a conflict between the testimony of these two men, I find the testimony of Mr. Hughes is more reliable." (R. 526.)

Soper testified by deposition at the instance of the Illinois corporation and apparently was a disinterested witness. He testified that he had never had the exclusive use of the trade-mark "International"; that he did not have any binding agreement with Turk as to its use; and that it was his understanding that either he or Turk could use it as they wished in the manufacture, assembly, distribution and sale of electric fencers. The testimony of this witness is in direct conflict with that

of Turk, who was the other party to the alleged transaction regarding the exclusive right to use such trade-mark.

ARGUMENT

I. THE SINGLE CONTROLLING ISSUE WAS DECIDED FOR APPELLEE ON THE FACTS

This action was decided as an issue of fact by an able Trial Judge who saw and heard the witnesses. Appellant Illinois corporation introduced evidence of its registration of the claimed trade-mark "International" and rested, and thereupon Appellee went forward with evidence establishing its right to concurrent use.

Nims, *Unfair Competition and Trade-Marks*, Fourth Edition, pages 732 to 734, Sec. 223a, states the controlling principles of law pertaining to trade-mark registration as follows:

"Registration under the statutes confers no new rights to the mark claimed or any greater rights than already exist at the common law without registration."

"Common law rights as to trade-marks were unaffected by the Act of 1905 which expressly states: 'Nothing in this act shall prevent, lessen, impeach or avoid any remedy at law or in equity, which any party, aggrieved by any wrongful use of any trade-mark might have had, if the provisions of this chapter had not been enacted. There is a similar provision in the 1946 act.'"

.

“Registration does not in any way conclude any property rights in a mark. All parties interested are free after registration as before, to maintain whatever rights they may have in law or in equity.”

“... No right of property is concluded by registration of a mark, and the parties affected are free to seek relief as courts of law or equity may award.

.

“A registration is *prima facie* evidence of use of the mark by the registrant up to the time of its assignment by it.”

It was Illinois corporation's contention that Turk had conveyed the trade-mark “International” to Soper, doing business as the International Electric Fence Company of Chicago, about 1939 or 1940 and that such trade-mark was reconveyed to Turk and hence to the Illinois corporation in 1944; that, therefore, Turk never had the trade-mark to convey to the Washington corporation at the time of its formation in 1941. (R. 349, 353.) Appellee Washington corporation took the position, which was sustained by the Trial Court, that Turk had the right to use the trade-mark, “International” as applied to electric fencers for all purposes in 1941 and conveyed the same to the Washington corporation. (R. 137, 142, 429.)

Neither the minutes of the first meeting of the Washington corporation, nor the agreement for the dissolution of the partnership of Turk and Soper, contains any specific reference to the trade-mark. (R. 354, 399.) Hence, the contention of *both* parties rests upon the theory that the trade-mark was conveyed by impli-

cation with transfer of all assets and good will. Because of its very nature the trade-mark of a business necessarily passes with the good will of such business. Nims, *Unfair Competition and Trade-Marks*, Fourth Edition, page 520, Sec. 188, states as follows :

“A trade-mark is auxiliary to the good will of its user. It is inseparable from good will. There is no such thing as a trade-mark in gross. Disassociated from merchandise it lacks the characteristics which alone give it value; associated with merchandise other than that of the one whose good will it represents, it becomes a deceitful designation. The trade-mark is the expression, the symbol, of part or all of the good will of the business using it. Separate from the good will of the business it identifies, it is useless, valueless as a trade-mark.

“ ‘A trade-mark right cannot exist independently of some business in which it is used. The sole function of a trade-mark being to indicate the origin or ownership of the goods, it cannot exist apart from the business to which its use is incident. There is no such right known to the law as an exclusive ownership in a trade-mark apart from the right to use it in a business. It cannot exist as a right in gross.’

“If this fundamental fact is kept in mind, it is much easier to understand such basic principles of trade-marks as that a trade-mark may be acquired only by actual use, that it may be transferred only in connection with the good will of the business in which it has been used, that rights in it may be limited by the nature of the goods on which it has been used and by the geographical territory in which those goods have been sold or in which it has become known; that such rights may be lost if the mark is separated from the good will of the business.’

At very most, from Appellant's viewpoint, there was a conflict in the evidence as to whether Turk had the right to use the trade-mark for all purposes in 1941. If he did have it in 1941, then it passed to the Washington corporation. Turk testified that he did not have it at that time having given it to Soper. Soper, a disinterested witness, testified he never had the exclusive use of the trade-mark and had always considered that both he or Turk were free to use it as, when and where either of them chose at any time. The Trial Court further found Turk's testimony inconsistent with the circumstances and in fact untruthful. It is too axiomatic to require extensive citation of authority that the credibility of witnesses is peculiarly for the District Court's determination and that the findings of the Trial Court will be given great weight and will not be reversed unless clearly wrong.

“Findings of fact shall not be set aside unless clearly erroneous, and due regard shall be given the opportunity of the trial court to adjudicate the credibility of witnesses.” Rule 52, Federal Rules of Civil Procedure.

There is not only substantial evidence, but an overwhelming preponderance, to support the conclusions of the Trial Court.

II. TRADE-MARK vs. TRADE-NAME

In Appellant's opening brief, reference is made to the distinction between trade-names and trade-marks. It is true that at the trial counsel, court and witnesses

sometimes referred to the trade-mark "International" as a trade-name, but it is clear from the context and the record as a whole there was no confusion that the issue concerned this trade-mark and not a trade-name. (R. 177, 323-326.)

III. "INTERNATIONAL" IS IN THE PUBLIC DOMAIN AND CANNOT BE EXCLUSIVELY APPROPRIATED

The Washington corporation claims no exclusive right to use such trade-mark. It does claim the right to concurrent use of the same in specified western states. The Illinois corporation claims the exclusive right to use the trade-mark throughout the United States. In this connection it should be noted that actually no one can appropriate for exclusive use the word "International," because it is a generic term with geographical connotations which belong in the public domain.

Nims, *Unfair Competition and Trade-Marks*, Fourth Edition, Page 290, Sec. 98a, provides in part as follows:

"... No one can obtain such an exclusive right to the use of a geographical name as to prevent others who inhabit the same geographical district or who deal in similar articles coming from that district from truthfully using the same designation. The same rule applies to maps, used as trade-marks."

Nims, at Page 327, Sec. 115, states as follows:

"The nicknames of places, and words which are not the names of places at all, though they describe location, are governed by the same rules as geo-

graphical names. 'Continental'; 'International'; 'Sea'; 'Quaker State'; have been held to be geographical names."

In *Koehler et al v. Sanders, et al*, 122 N. Y. 65, 4 LRA 576, 25 NE 235, (1890), it was held as follows:

"The word 'International' is a generic term, pertaining to relation between nations, and when applied to business or to transactions of private character it imports dealings of some sort in matters or with people of different nations, or which have some relation to them. It is in common use, and in its nature it is descriptive, and ordinarily characterizes the business to which it pertains, rather than its origin or proprietorship; and, so treated, the use of it cannot be exclusively appropriated by any party. This partnership name taken by the plaintiffs is apparently descriptive of a banking business, and indicates that it is in some sense international, and presumptively the name denotes the nature of the business. In that view, it cannot have the character essential to a trade-mark or to its exclusive use analogously to it. *Taylor v. Gillies*, 59 N.Y. 331; *Baking Powder Co. v. Sherrell*, 93 N.Y. 331; *Manufacturing Co. v. Trainer*, 101 U.S. 51; *Choynski v. Cohen*, 39 Cal. 501; *Burke v. Cassin*, 45 Cal. 467. The well-known use of this word, as commonly used in its application to business, is such as to render it *publici juris*; but it is urged that the business of the parties is not banking, and, although this term taken by the plaintiffs into their partnership name is generic, and descriptively applicable to a class or classes of business, it may in its use by them be deemed arbitrary; and therefore, as against any person engaged in a similar enterprise to that in which they are employed, the plaintiffs are entitled to the protection of its exclusive use. And in support of this proposition reference is made to the fact found by the referee that the name

‘International Banking Company’ was never used by any other person or corporation in connection with business similar to that in which the plaintiffs were engaged. That may be so, yet the word ‘international’ is not arbitrary or fanciful in its application to banking, but is descriptive of the character suggested by it of that business, and it may be deemed to have been intended to have such effect.”

In *National Grocery Co. v. National Stores Corp.* (N. J. 1924), 123 At. 740, an action to enjoin defendant from the use of the word “National” in connection with its grocery stores or corporate name, the court held the term “National” was a generic term, incapable of infringement.

In *Columbia Mill Co. v. Alcorn*, 150 U. S. 460, 37 L. Ed. 1144, it was held in part as follows:

“Second. The word ‘Columbia’ is not the subject of exclusive appropriation under the general rule that the word or words, in common use as designating locality, or section of a country, cannot be appropriated by any one as his exclusive trademark.

.

“In *Koehler v. Sanders*, 9 L.R.A. 576, 122 N.Y. 65, it was held that the word ‘international’ could not be exclusively appropriated by any one as a part of a trade-name, because the word was a generic term in common use, and in its nature descriptive of a business to which it pertains, rather than to the origin or proprietorship of the article to which it might be attached.”

In *Continental Ins. Co. v. Continental Fire Ass'n.*, 96 Fed. 846, it was held as follows:

“The word ‘continental’ is a generic term, and it is not the policy of the law to permit the exclusive appropriation of words or terms which are generic; that is, which pertain to a class of related things, and which are of general application. The right to use such words should remain vested in the public. See *Mill Co. v. Alcorn*, 150 U. S. 460, 14 Sup. Ct. 151, and cases there cited; also *Koehler v. Sanders*, 122 N.Y. 65, 25 N.E. 235; *Goodyear’s India-Rubber Glove Mfg. Co. v. Goodyear Rubber Co.*, 128 U.S. 598, 9 Sup. Ct. 166.”

IV. APPELLANT HAS NO STANDING ON EQUITY

Appellant is not entitled to a reversal on either fact or law, nor as a matter of equity. Turk, who owns and controls the Illinois corporation, has demonstrated his bad faith, breached his fiduciary duty and comes here with unclean hands. After going to Chicago, and while President of the Washington corporation, Turk competed with the Washington corporation in the sale and distribution of identical products using the identical trade-mark and a substantially identical trade-name. This was a breach of his fiduciary duty as President of the Washington corporation and brings him within the ancient maxim: “He who seeks equity must do equity.”

CONCLUSION

It is respectfully submitted that the Illinois corporation does not have the right to exclusive use of the trade-mark "International" either on the facts or on the law and that its position is not grounded in equity. That, Therefore, the judgment of the Trial Court should be affirmed in all respects.

Respectfully submitted,

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